

**Southeast Asia
Centre of
Asia-Pacific Excellence**



**DELTA INSURANCE GROUP:
INNOVATION AND TECHNOLOGY SOLUTIONS**

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THE COMPANY

Delta Insurance was founded in Auckland in 2014. It is a locally-owned business specializing in niche insurance products. It has offices in New Zealand and Singapore, with more than 15,000 customers and trading relationships with over 150 independent insurance broking firms. The company has grown from having three staff when it first started operating to 35 staff across New Zealand and Singapore. Delta has experienced average revenue growth of 66% per year in recent years.

The company's main shareholders are Ian Pollard, Craig Kirk, Ryan Eagar and Michael Perrett. Ian Pollard, Delta Insurance Group's managing director and chairman, and Craig Kirk, chief executive, worked in senior roles for AIG and other big insurance companies around the world before starting the business. They thus brought a wealth of expertise and insurance industry contacts to Delta. After years of working in giant organizations, the founders aim to keep a small company culture that emphasizes team spirit, as well as keeping it Kiwi-owned. Pollard and Kirk also managed to attract key investors, Ryan Eagar and Michael Perrett from Chillaxing. Mr Eagar has an insurance and investment background and Mr Perrett, as founder of ventilation company HRV in New Zealand, has significant business experience. Their strategic input has been more valuable than their monetary investment, the co-founders say.

As with many start-ups, the co-founders were going to start small, working on a lean start-up budget but at the time they launched, there was some significant consolidation in the insurance sector (IAG acquired Lumley) and managed to attract some fantastic employees as a result. So they hired some of the best and with that staff capacity they built up areas of the business earlier than initially planned. They

wanted to cover new emerging risks – for example relating to cybersecurity, drone operations and pollution. Five years on, Delta claims to have been the first to launch a local environmental and pollution insurance policy, a suite of risk management solutions related to insurance for cyber risk, a local UAV/drone operator's policy and a local intellectual property insurance policy. Other key risks covered by the company's products include property, professional indemnity insurance, directors and officers liability insurance, environmental and pollution liability insurance, contractors' professional and pollution liability insurance, and food manufacturing liability.

Delta has also developed ties with a stable of consulting firms and risk partners to help customers with risk mitigation and crisis response. In terms of technology and innovation, Delta is a founding member of FintechNZ, a founding member of InsurTech Asia, and in November 2017 launched Delta-Digital in Singapore, the country's first online Financial Lines insurance platform. The company has also received a number of awards and recognitions such as being named in the Deloitte Fast 50 in 2017, IANZ Insurer of the year for 2017 and 2018, ANZIIF Underwriting Agency of the Year 2017 and 2018, ANZIIF Young Employer of the Year 2018, and an NZTE Focus 700 company.

In July 2017 Delta launched its first overseas office in Singapore, from where around 7 to 8% of Delta's total global sales are now generated. The company's current activity and pipeline include entering a partnership with DynaRisk (for personal cyber risk and SME cyber insurance), further international expansion, increased expertise with new hires, an accelerated technology plan, and personal cyber offering. Their growth projector stands at \$70 million in revenues by 2021 and \$150 million by 2027.

CHALLENGES

Being small and new

Being a small-sized and new player in an industry dominated by giants is always going to be difficult. In insurance, the problem is particularly daunting because of the annual or longer contracts that underpin the basic business model: When a company buys insurance, it has to believe the insurer will, at some future point in time, be willing and able to make good on their promise to pay. Delta thus faced an initial challenge of ensuring its financial resources and lines of support were in place and credible.

The problem of small size and being a new entrant was something the company considered in its entry to Singapore. According to Pollard, "Particularly in Asia, it takes companies a little bit longer to get comfortable with who you are and what you are. Whereas starting up here in New Zealand, kiwis are more willing to give you a go as a kiwi company." In Singapore, they are competing against some of the biggest firms in the insurance industry, such as AIG, Zurich, Allianz, as well as domestic insurance players, who are well known to potential customers. Delta had to work hard to get the message across that they offer real quality product and could be relied on to deliver.

Delta, like other new firms, faced all the early-stage problems of getting over cashflow hurdles to cover costs in the period between set-up and realizing premium revenues. Press reports also refer to the large incumbent firms having resorted to "various 'game playing' blocking manoeuvres" against the start-up company. From an operational perspective, notes Pollard, they have faced the same problems of other firms moving into the Singapore market: scaling up in time to get over that cash flow hump.

The dominance of entrenched large firms in the Singapore market also creates a challenge for Delta in terms of accessing and incentivising a distributor network there. Brokers in Singapore tend to have long-established ties to the big insurance companies, and the cosy market structure creates low incentives for brokers to work with newcomers. However, as

of Q1 2019/20 and after only nine quarters of trading, Delta Insurance Singapore Private Limited is in the black for a quarter (making a profit) for the first time.

Market demand and (lack of) speed

Delta is a niche insurer with an innovative approach to products and delivery. According to Craig Kirk, one of the co-founders, being part of the "insurtech" revolution means that, "We are building the markets as well as competing with the large players in the market." In an industry that ranks second from last in terms of innovation, according to research by consultancy BCG, Delta is "trying to disrupt a reasonably complicated part of the industry, not the more standardised, homogenous part like the consumer business," says Pollard. This means that, while the opportunity for disruption is there, the products Delta has launched in Southeast Asia (and NZ) are relatively immature from an insurance perspective. Potential customers needed to be educated about these products.

Market penetration for products like cyber-attack protection insurance is less than 10% in Asia. Southeast Asia offers many opportunities for cyber insurance due to a rapidly growing e-business market, but other aspects of the market are less conducive. Most of all, although the risks and costs of cyber-attack, for example, are covered frequently in the news media, this does not necessarily translate into demand for cyber insurance. Pollard considers that the Singapore market "is quite clued up about the risk, but it gets a little bit trickier when we are talking to them about buying insurance. It is seen as a very intangible risk – you can't see it; you can't feel it." It is still perceived as relatively new, even though cyber insurance has been around for 20 years globally and 10 years in Asia.

Even when there is interest, realizing premium income has taken time in the Singapore market. Pollard compares firm behaviour with the

New Zealand market, where after a customer has a first quote, they may buy the product anywhere between six to 24 months later. In Asia, in contrast, “You are looking at a minimum of 12 months, and up to 36 months.”

The challenge of technological innovation

The founders of Delta Insurance wanted not only to compete against some of the big players, but also to promote innovation in the industry, which they believed was desperately lacking. Not only was the insurance industry “terrible with technology” but it also seemed to be going backward in customer service. Transparency did not seem to be a priority for the industry. Delta’s potential competitive advantage was to develop technological solutions that would allow them to provide a better customer experience in a more efficient and low-cost way.

The company also needed technological solutions to guard itself against bad insurance risks or creating moral hazard (a situation where an insured party fails to take reasonable steps to protect itself), without resorting to intrusive and time-consuming due diligence and monitoring. Could it develop products and processes that could do all this, at an affordable price? One major dilemma they faced was whether to outsource their tech requirements or develop their own proprietary technology. They needed to balance the need to focus on their primary function (as insurers) and avoid the distraction of becoming a technology company, against the potential for proprietary technology to be both more flexible and to provide them with a competitive edge.

STRATEGY

Establishing credibility

Developing a brand and reputation from scratch in a competitive marketplace has been a major task. The starting point for establishing Delta’s credibility as an underwriting agen-

cy was to win status as a Lloyd’s Coverholder, a process that took about two years. Status as a Coverholder means that Delta issues insurance policies on behalf of syndicates in the Lloyd’s marketplace in London. According to Pollard, there are “about 20 syndicates that are established in Singapore, but we trade with essentially two of those syndicates.”

This has been highly beneficial, both in New Zealand, where Lloyd’s is relatively well-known, but also for their push into Southeast Asia and beyond. Delta was one of the first Lloyd’s Coverholders in Singapore. The novelty of this status meant that “it has taken a little bit of explaining in the Singapore market, but we have done quite a good job with Lloyd’s fantastic support through their platform in Singapore.” Being a Lloyd’s Coverholder also provided for regulatory approval by the financial sector regulator in Singapore, the Monetary Authority of Singapore, as well as providing recognition in markets such as Hong Kong.

Singapore as entry point into Southeast Asia

Singapore was chosen due to its position as a global centre of finance, commerce and technology. At the centre of a region where the digital economy is booming, it is also a market with high growth potential. The growth of e-commerce and related digital strategies has meant that crime has also moved online. Cybercrime is now the second most prevalent economic crime in Singapore, with 43% of companies impacted and costs imposed reaching \$1.25 (Singapore) billion annually.

Another advantage of Singapore is that it provides an operating environment where Delta’s business methodologies, that have proven to be so disruptive in New Zealand, are transferable. For example, Delta’s work in New Zealand with the National Cyber Policy Office and Connect Smart has helped shape and improve New Zealand’s cyber security framework, particularly for business, and Delta plans to adapt this approach in Singapore. However, Pollard cautions, “You can’t just go up there and hope for the best. You don’t just go into the Singa-

pore market and expect what you do in New Zealand to work well. You have got to have boots on the ground and you have got to have people who know the market.”

Not only did Pollard understand Asian insurance markets from his own time working in the industry in that region, Delta took care to plan its entry and hired experienced Managing Director Eugene Cheong who had worked with Pollard and Kirk at AIG. Although its Singapore office only opened in 2017, it was always part of the company’s plans to establish there. When selecting the team for the office in Singapore, it was important to hire experienced staff who had worked in the market and whom the Delta management could trust on the basis of prior relationships. “We made a deliberate decision to hire a team with some skin in the game in Singapore who knew that market very well. They form the backbone of the team in Singapore,” Pollard says.

From Singapore, the company intends to expand into regional markets, both in Southeast Asia and in the wider Asian region. Singapore makes sense as a regional entry point in part because many firms active across the region use Singapore as their regional headquarters, making use of its hubbing services in finance, transport and legal services. Some of the governance characteristics offered by Singapore, including reliable and efficient legal infrastructure, are complementary to neighbouring economies. And although these neighbouring countries have diverse and sometimes challenging business environments, Singapore’s close proximity to several fast-growing economies represents another locational advantage.

Products and partnerships

Identifying specific product niches was always central to Delta’s strategy as a means to carve out space in a market dominated by large players. Its product suite does not include the major, consumer-facing insurance products of the firms that are household names in the global insurance world. Rather, Delta has invested in specific solutions for very specific business risks. As noted by Pollard, “We don’t want to necessarily be the biggest; we don’t

want to be all things for all people. We have a few focus specialities and do them really well.”

One area of innovation that has helped the company has been to introduce risk-reduction services alongside insurance products. As Pollard puts it, “We have got a number of tools we can deploy to help our partners in Southeast Asia to protect themselves against cyber threats and improve their risk management.” An example of this is that working in partnership with global cyber-security firm DynaRisk as well as other technology partners, the company has created a new cyber-protection and insurance product. As part of the package, customers receive a cyber-security scorecard which assesses how well-protected (or not) they are, a step-by-step continuous action plan to tighten security and monitoring of multiple devices, and a personal dashboard that includes alerts in case of cyber threats.

Delta also provides services such as training companies, including SMEs, in what to look for in terms of cyber-attacks. For example, they offer training tools on how to spot phishing campaigns, how to respond to suspicious emails, and password protection. As well as working with its technology partners on these products, Delta also engages in thought leadership through talks and presentations at events.

There are two central advantages to these niche innovations for Delta. The first is that by educating firms on their risks and providing tools to reduce them, they simultaneously reduce the insurance risk in client firms. The second is that it helps reduce the hurdle facing most insurance sellers that their products lack an immediate benefit. It is often said about insurance that, in the best scenario, you pay a lot of money and never need to claim on your insurance. Bringing risk reduction tools together with insurance gives clients a reason to feel like they are getting something even if they never make a claim.

Technology: disruption and scalability

Delta is trying to change that by innovating with technology themselves. When assessing

client risk Delta in part uses historical data and ratings they get from insurance partners. However, this traditional way of assessing risk is a slow process. Delta wants to incorporate analytics and AI for assessing and predicting client risk and to produce risk information in the future. As part of its attempt to disrupt the rather technology-averse insurance market, Delta has introduced DeltaDigital in Singapore, which can generate instant quotes for buyers, such as small and medium enterprises (SMEs), who no longer have to go through the slow and complicated process of completing a physical proposal form.

While the process traditionally can take up to several weeks, DeltaDigital is able to generate a quote within a matter of minutes, a first for the Singapore insurance market. Pollard describes that the cloud-based application “allows us to be very nimble, very agile and very quick at turning things around. It means we can renew an account with a broker directly very quickly with very basic information. We don’t have to necessarily wait for mountains of paperwork to come through or send out mountains of paperwork for the renewal - we just have a simple declaration. Is this correct and sufficient for your needs? Yes, it is. We can turn that around within minutes.”

The ability to rate risk so rapidly, at least provisionally (there is still a human assessment in the process), is a result of Delta’s investment in a cloud-based platform they built themselves called Delta Insurance Management System (DIMS). After considering the pros and cons of outsourcing, Pollard says they decided not to take a technology solution off the shelf or commission another provider. “We built it ourselves,” he says. This not only sustains a source of competitive advantage, it also gives them the capacity to make constant adjustments.

Delta employs software developers in Ireland and New Zealand, giving round-the-clock capacity to deal with issues almost immediately. As an innovative player, Pollard sees that, “We will have a number of things we may need to tweak. Because we are bringing on a number

of new products all the time, there is also a constant stream of work – we are always looking at improving our processes. We haven’t built the system and just left it – we are still investing in it.”

In addition to providing a competitive edge, the investment in technology makes the business scalable at relatively low cost. According to co-founder Kirk, “Our model is quite scalable not only internationally but also into other product areas as well.” Technology solutions developed in the New Zealand or Singapore markets give the company capacity to grow elsewhere. For example, says Pollard, if they wanted to move into say Hong Kong or Taiwan in the future, they are now in a position to essentially clone the system and “scale it pretty quickly using that basic technology stack.”

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